

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Wellesley
Contributory Retirement System
For the Three Year Period
January 1, 1999 - December 31, 2001
PERAC 01: 09-093-33**

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May 18, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Wellesley** Retirement System pursuant to G.L. c. 32, §. 21. The examination covered the period from January 1, **1999** to December 31, **2001**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and expresses appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Wellesley Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

1. **Meeting Minutes**

Minutes of the retirement Board meetings are not being completed. This was also a finding in the previous audit report. G.L. c. 32, § 20(5)(a) requires retirement Board members to meet at least once a month to conduct Board business and to keep a record of those proceedings.

Recommendation

Minutes of retirement Board meetings should be completed prior to the next monthly meeting so they can be reviewed, approved, and signed by the Board members.

Board Response:

The Board reviewed the PERAC audit report of this System for the period January 1, 1999 to December 31, 2001 at its meeting held on April 28, 2004. The Board took note of the findings in the report and will take such steps as are necessary to address them.

Final Determination:

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Wellesley Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2001	2000	1999
Cash	\$231,867	\$467,979	\$177
Short Term Investments	2,217,754	3,041,682	2,553,565
Fixed Income Securities (at book value)	41,299,969	47,616,063	35,723,135
Equities	53,705,339	60,582,378	64,759,685
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	4,113,434	2,864,108	6,284,564
Pooled International Equity Funds	12,136,186	11,790,590	15,602,383
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	0	0	0
Pooled International Fixed Income Funds	1,447,619	1,480,278	2,751,386
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	0	0	0
Pooled Real Estate Funds	0	0	0
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	632,421	732,007	491,285
Accounts Receivable	854,722	1,894,643	295,508
Accounts Payable	(913,364)	(2,479,277)	(312,388)
TOTAL	<u>\$115,725,947</u>	<u>\$127,990,451</u>	<u>\$128,149,300</u>
FUND BALANCES			
Annuity Savings Fund	\$17,132,070	\$15,710,483	\$14,931,515
Annuity Reserve Fund	6,738,843	6,950,352	6,294,290
Pension Fund	28,020,431	28,118,112	27,764,407
Military Service Fund	11,671	11,453	11,094
Expense Fund	0	0	0
Pension Reserve Fund	<u>63,822,932</u>	<u>77,200,051</u>	<u>79,147,993</u>
TOTAL	<u>\$115,725,947</u>	<u>\$127,990,451</u>	<u>\$128,149,300</u>

Wellesley Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$14,631,206	\$5,599,672	\$27,772,648	\$10,872	\$0	\$69,625,152	\$117,639,550
Receipts	2,029,709	176,363	595,844	222	550,232	13,407,203	16,759,573
Interfund Transfers	(1,245,174)	1,247,704	3,881,832	0	0	(3,884,362)	0
Disbursements	<u>(484,226)</u>	<u>(729,448)</u>	<u>(4,485,917)</u>	<u>0</u>	<u>(550,232)</u>	<u>0</u>	<u>(6,249,824)</u>
Ending Balance (1999)	14,931,515	6,294,290	27,764,407	11,094	0	79,147,993	128,149,300
Receipts	2,594,475	194,415	596,645	199	609,893	2,578,272	6,573,899
Interfund Transfers	(1,235,151)	1,236,861	4,524,344	160	0	(4,526,214)	0
Disbursements	<u>(580,356)</u>	<u>(775,214)</u>	<u>(4,767,284)</u>	<u>0</u>	<u>(609,893)</u>	<u>0</u>	<u>(6,732,747)</u>
Ending Balance (2000)	15,710,483	6,950,352	28,118,112	11,453	0	77,200,051	127,990,451
Receipts	2,281,167	204,181	598,852	218	607,326	(8,702,809)	(5,011,066)
Interfund Transfers	(431,388)	431,388	4,674,310	0	0	(4,674,310)	0
Disbursements	<u>(428,191)</u>	<u>(847,078)</u>	<u>(5,370,843)</u>	<u>0</u>	<u>(607,326)</u>	<u>0</u>	<u>(7,253,438)</u>
Ending Balance (2001)	<u>\$17,132,070</u>	<u>\$6,738,843</u>	<u>\$28,020,431</u>	<u>\$11,671</u>	<u>\$0</u>	<u>\$63,822,932</u>	<u>\$115,725,947</u>

Wellesley Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2001	2000	1999
Annuity Savings Fund:			
Members Deductions	\$1,819,776	\$1,625,207	\$1,556,189
Transfers from other Systems	131,241	598,783	125,914
Member Make Up Payments and Redeposits	36,816	67,607	46,896
Investment Income Credited to Member Accounts	<u>293,334</u>	<u>302,877</u>	<u>300,710</u>
Sub Total	<u>2,281,167</u>	<u>2,594,475</u>	<u>2,029,709</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>204,181</u>	<u>194,415</u>	<u>176,363</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	49,409	47,202	46,401
Received from Commonwealth for COLA and Survivor Benefits	549,443	549,443	549,443
Pension Fund Appropriation	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>598,852</u>	<u>596,645</u>	<u>595,844</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	
Investment Income Credited Military Service Fund	<u>218</u>	<u>199</u>	<u>222</u>
Sub Total	<u>218</u>	<u>199</u>	<u>222</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>607,326</u>	<u>609,893</u>	<u>550,232</u>
Sub Total	<u>607,326</u>	<u>609,893</u>	<u>550,232</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	28,303	23,230	16,110
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,500	10,323	7,370
Excess Investment Income	<u>(8,732,612)</u>	<u>2,544,719</u>	<u>13,383,723</u>
Sub Total	<u>(8,702,809)</u>	<u>2,578,272</u>	<u>13,407,203</u>
TOTAL RECEIPTS	<u>(\$5,011,066)</u>	<u>\$6,573,899</u>	<u>\$16,759,573</u>

Wellesley Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,			
	2001	2000	1999
Annuity Savings Fund:			
Refunds to Members	\$139,583	\$353,535	\$192,311
Transfers to other Systems	<u>288,609</u>	<u>226,821</u>	<u>291,915</u>
Sub Total	<u>428,191</u>	<u>580,356</u>	<u>484,226</u>
Annuity Reserve Fund:			
Annuities Paid	847,078	773,487	723,784
Option B Refunds	<u>0</u>	<u>1,728</u>	<u>5,665</u>
Sub Total	<u>847,078</u>	<u>775,214</u>	<u>729,448</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	4,114,111	3,684,450	3,387,648
Survivorship Payments	292,788	276,800	279,848
Ordinary Disability Payments	12,407	12,149	16,617
Accidental Disability Payments	494,158	497,694	491,701
Accidental Death Payments	199,643	187,930	180,496
Section 101 Benefits	0	0	0
3 (8) (c) Reimbursements to Other Systems	257,735	108,262	129,607
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,370,843</u>	<u>4,767,284</u>	<u>4,485,917</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	60,158	38,750	39,679
Legal Expenses	0	0	0
Medical Expenses	0	0	0
Travel Expenses	442	594	475
Administrative Expenses	38,327	11,041	10,298
Furniture and Equipment	0	0	0
Management Fees	362,624	394,765	368,595
Custodial Fees	80,594	78,003	77,601
Consultant Fees	<u>65,180</u>	<u>86,740</u>	<u>53,585</u>
Sub Total	<u>607,326</u>	<u>609,893</u>	<u>550,232</u>
TOTAL DISBURSEMENTS	<u>\$7,253,438</u>	<u>\$6,732,747</u>	<u>\$6,249,824</u>

Wellesley Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2001	2000	1999
Investment Income Received From:			
Cash	1085.05	1679.52	\$1,196
Short Term Investments	145,241	190,583	108,449
Fixed Income	4,025,877	4,212,713	2,879,783
Equities	649,688	581,209	543,966
Pooled or Mutual Funds	118,565	5,587,489	2,182,888
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>4,940,456</u>	<u>10,573,673</u>	<u>5,716,282</u>
Plus:			
Increase in Amortization of Fixed Income Securities	0	0	17,295
Realized Gains	3,617,740	7,563,936	4,908,087
Unrealized Gains	1,938,039	5,615,414	14,859,051
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>632,421</u>	<u>732,007</u>	<u>491,285</u>
Sub Total	<u>6,188,200</u>	<u>13,911,356</u>	<u>20,275,717</u>
Less:			
Decrease in Amortization of Fixed Income Securities	0	0	(62,484)
Paid Accrued Interest on Fixed Income Securities	(972,890)	(1,410,803)	(733,816)
Realized Loss	(12,546,597)	(10,244,711)	(8,319,813)
Unrealized Loss	(4,504,716)	(8,686,127)	(1,958,262)
Custodial Fees Paid	0	0	0
Consultant Fees Paid	0	0	0
Management Fees Paid	0	0	0
Board Member Stipend	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(732,007)</u>	<u>(491,285)</u>	<u>(506,374)</u>
Sub Total	<u>(18,756,209)</u>	<u>(20,832,927)</u>	<u>(11,580,749)</u>
NET INVESTMENT INCOME	<u>(7,627,554)</u>	<u>3,652,103</u>	<u>14,411,250</u>
Income Required:			
Annuity Savings Fund	293,334	302,877	300,710
Annuity Reserve Fund	204,181	194,415	176,363
Military Service Fund	607,326	609,893	550,232
Expense Fund	<u>218</u>	<u>199</u>	<u>222</u>
TOTAL INCOME REQUIRED	<u>1,105,058</u>	<u>1,107,384</u>	<u>1,027,527</u>
Net Investment Income	<u>(7,627,554)</u>	<u>3,652,103</u>	<u>14,411,250</u>
Less: Total Income Required	<u>1,105,058</u>	<u>1,107,384</u>	<u>1,027,527</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$8,732,612)</u>	<u>\$2,544,719</u>	<u>\$13,383,723</u>

Wellesley Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$231,867	0.20%	100
Short Term		2,217,754	1.93%	100
Fixed Income		41,299,969	35.87%	25 - 80
Equities		53,705,339	46.64%	75
Pooled Short Term Funds		0	0.00%	
Pooled Domestic Equity Funds		4,113,434	3.57%	
Pooled International Equity Funds		12,136,186	10.54%	15
Pooled Global Equity Funds		0	0.00%	
Pooled Domestic Fixed Income Funds		0	0.00%	
Pooled International Fixed Income Funds		1,447,619	1.26%	20
Pooled Global Fixed Income Funds		0	0.00%	
Pooled Alternative Investment Funds		0	0.00%	
Pooled Real Estate Funds		0	0.00%	
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		0	0.00%	100
GRAND TOTALS	\$0	\$115,152,168	100.00%	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2001**, the rate of return for the investments of the **Wellesley** Retirement System was -5.01%. For the five year period ending December 31, **2001**, the rate of return for the investments of the **Wellesley** Retirement System averaged 9.88%. For the 17-year period ending December 31, **2001**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Wellesley** Retirement System was 12.78%.

Wellesley Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

The **Wellesley** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

November 18, 1985

- 20.03(1) Equity investments shall not exceed 55% of the total book value of the portfolio at the time of purchase.

July 8, 1986

- 20.03(1) Equity investments shall not exceed 65% of the total book value of the portfolio at the Time of purchase.
- 20.07(8) No load international mutual funds shall not exceed 10% of the total book value of the Portfolio at the time of purchase.

August 11, 1987

- 20.03(1) Equity investments shall not exceed 75% of the total book value of the portfolio at the time of purchase.
- 20.03(2) At least 25% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

November 17, 1988

- 20.07(10) Mutual funds shall not exceed 10% of the book value of the portfolio at the time of purchase.
- 20.07(11) Limited partnership investments sponsored by Standish, Ayer & Wood may be purchased in an amount not to exceed \$500,000.

July 13, 1989

- 20.06(2) Bonds shall have a minimum quality rating of BAA or equivalent as rated by one or more recognized bond rating service, except that no more than 5% of the total portfolio may be invested in bonds having a rating of BB or equivalent as rated by one or more recognized bond rating service.
- 20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a BAA or equivalent rating must be sold within a reasonable period of time not to exceed one year, except as authorized by 20.06(2).
- 20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 150% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

Wellesley Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

August 25, 1989

- 20.07(11) Limited partnership investments sponsored by Standish, Ayer & Wood may be purchased in an amount not to exceed \$1,000,000.

January 2, 1991

- 18.02(4) A Statement of the rate of return objective for the entire portfolio which shall be 60% of the Standard and Poor's 500 Stock Index and 40% of the Shearson Lehman Government/Corporate Bond Index.
- 20.08(2) Consolidated Standish short-term Asset Reserve Fund.

May 8, 1991

- 20.03(4) International fixed income investments shall not exceed 10% of the total portfolio valued at market.
- 20.04(1) United States based corporations and fixed income obligations of foreign governments and corporations.

October 9, 1991

- 20.07(11) Limited partnership investments sponsored by Standish, Ayer & Wood, Inc. may be purchased in an amount not to exceed \$2,000,000.

December 26, 1991

- 16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year: (a) 1% of the value of the fund for the first \$5 million; and (b) 0.5% of the value of the fund in excess of \$5 million.
- 16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

January 21, 1992

- 20.03(1)(b) International equities shall not exceed 5% of the total book value of the portfolio at the time of purchase.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

Wellesley Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

November 19, 1992

- 20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

January 7, 1993

- 20.03(1) Equity investments shall not exceed 75% of the total portfolio valued at market.
20.03(1)(b) International equities shall not exceed 5% of the total portfolio valued at market.
20.07(11) Limited partnership investments sponsored by Standish, Ayer & Wood, Inc. shall not exceed 5% of the total portfolio valued at market.
20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

October 6, 1994

- 20.03(1)(b) International equities shall not exceed 15% of the total book value of the portfolio at the time of purchase.
20.03(4) International fixed income investments shall not exceed 20% of the total portfolio valued at market.

July 11, 1996

- 20.07(11) Limited partnership investments in the Standish Small Cap Equity Fund shall not exceed 15% of the total portfolio valued at market.

August 13, 1997

- 20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond-rating services. However, 10% of the total portfolio may be invested in bonds with a minimum quality rating of BB or equivalent as rated by one or more recognized bond-rating services.
20.06(4) Fixed income holdings, which are downgraded by one or more recognized rating Services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year. However, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent.

Wellesley Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Wellesley** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Wellesley Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Wellesley Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Wellesley** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

The Wellesley Retirement System submitted comprehensive supplementary membership regulations on various dates, which were approved by PERAC. These regulations, in detail, are available for review at both the Wellesley Retirement Board and at PERAC.

Wellesley Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

March 29, 1985

Comprehensive Rules

- I Introduction
- II Eligibility for Membership
- III Membership
- IV Classification of Employees
- V Service After Age 70
- VI Average Annual Rate of Compensation
- VII Amount of Creditable Service
- VIII Involuntary Retirement
- IX Application for Superannuation Retirement
- X Application for Disability Retirement
- XI [Not Approved]
- XII Rehabilitation

Forms

- 3. Information Required Under Sec. 5-Superannuation Retirement
- 4. Information Required Under Sec. 6-Ordinary Disability Retirement
- 5. Information Required Under Sec. 7-Accidental Disability Retirement
- 6. Information Required Under Sec. 94-The Heart Law
- 7. Information Required Under Sec. 94A-The Smoke Law
- 8. Worksheet For Section 8 Adjustments
- 8a. Worksheet if there has been a previous adjustment under sec. 8, Refer to PERA Rules

July 3, 1985

Amendments to Comprehensive Rules

- XI Adjustment of Disability Retirement Allowance Under Sec. 8

Wellesley Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PricewaterhouseCoopers** as of **January 1, 2001**.

The actuarial liability for active members was	\$42,678,694
The actuarial liability for retired members was	<u>49,600,197</u>
The total actuarial liability was	92,278,891
System assets as of that date were (actuarial value)	<u>123,291,025</u>
The unfunded actuarial liability was	<u>(\$31,012,134)</u>
 The ratio of system's assets to total actuarial liability was	 133.6%
As of that date the total covered employee payroll was	\$21,561,329

The normal cost for employees on that date was 8.10% of payroll

The normal cost for the employer was 5.00% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.50% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2001	\$ 123,291,025	\$ 92,278,891	\$ (31,012,134)	133.6%	\$21,561,329	-143.83%
1/1/1999	106,295,893	81,975,372	(24,320,521)	129.7%	17,694,603	-137.45%
1/1/1997	78,665,972	69,141,005	(9,524,967)	113.8%	17,800,326	-53.51%
1/1/1995	62,744,371	62,680,623	(63,748)	100.1%	16,138,898	-0.39%

Wellesley Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Superannuation	17	28	4	10	14	9	15	23	23	9
Ordinary Disability	0	0	1	0	0	0	0	0	0	0
Accidental Disability	0	1	0	2	3	2	0	1	0	0
Total Retirements	17	29	5	12	17	11	15	24	23	9
 Total Retirees, Beneficiaries and Survivors	 380	 395	 389	 389	 391	 388	 387	 395	 400	 395
 Total Active Members	 511	 508	 557	 570	 578	 584	 592	 580	 593	 629
 Pension Payments										
Superannuation	2,399,951	2,605,841	2,829,903	2,859,386	2,973,878	3,096,794	3,098,611	\$3,387,648	\$3,684,450	\$4,114,111
Survivor/Beneficiary Payments	206,132	214,918	228,469	235,391	236,781	284,058	284,998	279,848	276,800	292,788
Ordinary Disability	21,412	21,412	23,057	20,601	20,692	21,142	26,217	16,617	12,149	12,407
Accidental Disability	356,195	352,213	376,026	400,622	467,057	488,646	486,117	491,701	497,694	494,158
Other	<u>169,041</u>	<u>229,516</u>	<u>273,472</u>	<u>262,278</u>	<u>271,263</u>	<u>255,981</u>	<u>260,332</u>	<u>310,103</u>	<u>296,192</u>	<u>457,378</u>
Total Payments for Year	<u>\$3,152,731</u>	<u>\$3,423,900</u>	<u>\$3,730,927</u>	<u>\$3,778,278</u>	<u>\$3,969,671</u>	<u>\$4,146,621</u>	<u>\$4,156,275</u>	<u>\$4,485,917</u>	<u>\$4,767,284</u>	<u>\$5,370,843</u>